



State of Washington  
Department of Revenue

# Excise Tax Advisory

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Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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NUMBER: 484.04.171

CONVERSION DATE: July 1, 1998

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## CORPORATION AND STOCKHOLDER DISTINCT ENTITIES FOR BUSINESS AND OCCUPATION TAX PURPOSES

Issued July 31, 1974

The taxpayer, as a sole proprietorship, entered into a public road construction contract. While the sole proprietorship was subsequently incorporated, with the taxpayer as a majority stockholder, the sole proprietorship remained liable under the contract. The corporation performed the actual work.

RCW 82.04.220 provides that

There is levied and shall be collected from every person a tax for the act or privilege of engaging in business activities. (Emphasis supplied.)

RCW 82.04.030 defines "person" to include " . . . any individual, . . . corporation . . . "

Since the sole proprietorship continued to be liable under the contract and the corporation did the work, the Department held a prime contractor/subcontractor relationship to exist. Since a corporation is separate and distinct from its stockholders, both the corporation and the stockholder (previously the owner of the sole proprietorship) owed the business and occupation tax on the proceeds of the contract.

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***ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.***

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